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INFO RUCNCLS/ALL SOUTH AND CENTRAL ASIA COLLECTIVE
RUCNCIS/CIS COLLECTIVE
RUCNMEM/EU MEMBER STATES COLLECTIVE
RUEHAK/AMEMBASSY ANKARA 6040
RUEHBJ/AMEMBASSY BEIJING 3734
RUEHKO/AMEMBASSY TOKYO 3593
RUEHIT/AMCONSUL ISTANBUL 4282
RUEKJCS/JOINT STAFF WASHDC
RUEAIIA/CIA WASHDC
RUCPDOG/DEPT OF COMMERCE WASHDC
RHEFDIA/DIA WASHDC
RHEBAAA/DEPT OF ENERGY WASHDC
RHEHNSC/NSC WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUEKJCS/SECDEF WASHINGTON DC
RUCNDT/USMISSION USUN NEW YORK 1344
RUEHVEN/USMISSION USOSCE 4219

C O N F I D E N T I A L SECTION 01 OF 02 ASHGABAT 001654

SIPDIS

STATE FOR SCA/CEN; EEB;
ENERGY FOR EKIMOFF/BURPOE/COHEN
COMMERCE FOR DSTARKS/EHOUSE

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SUBJECT: TURKMENISTAN AND RUSSIA AGREE ON GAS, BUT HOW
MUCH?

REF: ASHGABAT 1533

Classified By: Charge Sylvia Reed Curran for reasons 1.4 (b) and (d).

11. (C) Turkmen media announced on December 22 that the Turkmen state-owned gas company Turkmengaz and Russia's Gazprom signed a document, amending the 2009 natural gas sale and purchase contract to include 2010 transactions. In addition, Turkmen President Berdimuhamedov and Russian President Medvedev signed an agreement on extending cooperation in the areas of energy and machine building. The Turkmen media did not provide further details regarding the volume of gas Russia intends to purchase and the actual gas price. GOTX officials recently told us that price and volumes were the sticking points hindering the signing of a new gas deal (reftel). If international media reports are correct, Turkmen gas supplies to Russia will resume between January 1-10, 2010. Gas supplies to Russia were halted in April after a gas pipeline explosion in Turkmenistan.

12. (C) Before the April gas pipeline explosion, Russia had reportedly agreed to purchase 47 billion cubic meters of Turkmen gas at reportedly about \$320 per thousand cubic meters (tcm) of gas (a price that became extremely high when the global demand for gas declined steeply). Since April, the GOTX has reportedly lost \$9 billion in gas revenues from Russia, forcing it to dig into its cash reserves to cover expenditures. The December 22 agreement with Russia reportedly provides that Russia will purchase up to 30 bcm of Turkmen gas per year. Our contacts at the Turkmen Ministry of Oil and Gas were doubtful that Russian gas purchase would tally more than 10 bcm for 2010. They did not want to speculate on potential volumes for 2011, given that the international demand for gas a year out was unknown.

13. (C) International media also reported that the price of Turkmen gas bound for Russia in 2010 would derive from a price formula based on the current European price for gas minus transportation costs. It is unclear whether that

European price is the German price of \$380 per tcm or the Ukrainian price of \$300 per tcm. Moreover, both Turkmen and Russian officials consider gas contract details like price and volume to be state secrets, which is why the Turkmen media is unlikely to comment further on agreement details.

14. (C) Gazprom's website also reported that the two countries reached an agreement to jointly implement the Littoral (or Pre-Caspian) pipeline and the East-West pipeline, which would bring large volumes of gas in eastern Turkmenistan to the Caspian coast. It's likely that these projects were part of the agreement on extending cooperation in the areas of energy and machine building. In addition, it seems likely that the two presidents indicated their intention to participate in the pipeline projects without providing additional details such as cost and a construction timeline. Turkmen Ministry of Oil and Gas officials estimated that Russia would need to purchase between 47 and 50 bcm of gas for the two pipeline projects to be economically viable.

15. (C) COMMENT: When Medvedev came to Ashgabat to open a Russian school on December 22, many correctly guessed the real purpose of the trip was to finally agree on 2010 gas volumes and a price. If Turkmen gas starts flowing again to Russia in 2010, Turkmenistan will have Iran, China, and Russia as gas customers, with the option for additional pipelines should Turkmenistan and Russia follow through on building the Littoral and East-west pipelines. It appears that Turkmenistan did not get the volumes and the price it originally wanted, but it's doubtful that the Turkmen President will complain much, given that he now has three gas

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customers as opposed to one. END COMMENT.
CURRAN